

		FMA 601-1
Department of Public Health and Human Services FAMILY RELATED MEDICAID	Section:	ELIGIBILITY & BENEFIT DETERMINATION
	Subject:	Prospective Budgeting

Supersedes: FMA 601-1, 01/01/04

► **References:** 42 CFR 435.601; ARM 37.82.101, .703

GENERAL RULE– Financial eligibility and benefit amount for the current and future months must be established using prospective budgeting. The best estimate of income, resources, household composition and other circumstances (including all nonfinancial requirements) which will occur during the benefit month is used to prospectively determine eligibility.

NOTE: All prospective budgeting methods can be used with **earned** or **unearned** income.

► All non-financial requirements (FMA 300) must also be evaluated prospectively for each benefit month.

GATHERING INFORMATION

► Information needed to prospect the individual's circumstances:

1. may be elicited during discussions with the applicant/recipient, or from contact with the employer/source of income:
 - a. type of job/source of income;
 - b. nature of job/source of income (e.g., seasonal, on call, sporadic, contingent on weather, etc.);
 - c. rate of pay;
 - d. how often paid;
 - e. number of hours worked per week (if source is a job); and
 - f. whether hours fluctuate (if source is a job).

► **NOTE:** Eligibility case managers should use investigative skills such as asking if a reported change is expected to continue and looking for a pattern of overtime pay. If changes are anticipated, alerts must be set on the system as reminders to check for changes and follow up at appropriate times.

2. must include information from the application form and/or reported changes about past, present and future circumstances.
3. must be reevaluated upon receipt of more complete information or change report up to the point of the final eligibility determination.

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► If eligibility exists:

1. authorize benefits.
2. notify the recipient(s) using the appropriate system notices.
3. send the household HCS-260, "TANF/Medicaid Change Report Form";
4. send the household the change reporting notice on the system; and
5. document in system case notes the justification for actions taken, including budgeting method used and verification received.

Change reporting and notice requirements must be followed when recalculating benefits; see FMA 1501-1.

Information provided by the applicant/recipient must be verified with corroborative documents and/or statements from third parties (i.e., employers, SSA, etc.). If requested, the worker must assist in gathering verification. Client statement is never sufficient documentation, unless specifically noted in other sections of this manual.

**PROSPECTING
INCOME**

To prospect countable monthly income, use one or a combination of the following budgeting methods for income that is reasonably certain to be received (to be determined on a case-by-case basis in conjunction with the household):

- 1. **Actual** – used when determining eligibility for retroactive periods, and when a pay date in the current benefit month occurred prior to the date of application.
- 2. **Anticipating** - used when actual is not appropriate. Anticipating consists of several options:
 - a. **Averaging**- used when there is a reliable history of income.
 - b. **Prorating over period intended to cover**- used for contractual, self-employment or other income intended to cover a longer period of time.
 - c. **Rate/Unit/Frequency**-used when none of the other methods are allowed or appropriate.

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3. **Factoring**-used when pay is received weekly or bi-weekly.

NOTE: A combination of actual and anticipated methods may be used for the same income source for the same month---for example, when one pay date has already been received and verified for the benefit month, but there is a second pay date still to come, actual will be used for the first pay date and an anticipating method would be used for future pay dates for the benefit month. Factoring may be used in combination with any budgeting method.

The method selected will depend on the income source and the household circumstances.

System case notes must clearly document which budgeting method was used to prospect each source of income, including the verification used (e.g., employer statement, pay stubs, self-employment tax documents, business records, etc.).

When a case includes Food Stamps, TANF, and/or FMA, weekly and bi-weekly income must be factored for those programs and cannot be factored for ABD Medicaid. When a TEAMS case includes a combination of programs, factored income must be coded separately for FMA/TANF, food stamps and not factored for ABD Medicaid.

ACTUAL INCOME

Actual income can only be used when:

1. Computing an overpayment;
2. Determining retroactive Medicaid eligibility; or
3. Income is for the month of application and the individual is either:

- a. **NOT** paid on a weekly or biweekly basis; or

NOTE: If all biweekly or weekly pay stubs are provided in the month of application, income must be factored even when they did not receive an extra pay check.

- b. paid on a weekly or biweekly basis and did not get paid for the normal work schedule for any pay period (e.g., new employment, unpaid sick leave, unpaid vacation, etc.).

**► AVERAGING
INCOME
METHOD**

When there is a reliable income history, any source of income which fluctuates from month to month (or pay period to pay period) may be averaged. Such income could include: wages, tips, irregular child support, or irregular pensions. (Quarterly bonuses must be anticipated.) Be sure to ask the applicant/recipient if the average is expected to continue and document in system case notes. When averaging, look for patterns of income fluctuations, such as overtime.

NOTE: Averaging is often used in conjunction with other budgeting methods. For example, when an individual is paid weekly or biweekly, the reliable income history is averaged then factored.

1. The eligibility case manager and the applicant/recipient must agree upon:
 - a. a representative period of time;
 - b. the number of pay periods to be used; and
 - c. the pay dates.

Paychecks which are agreed to be unusually high or low should be disregarded unless the trend is anticipated to continue into the prospective period.

It is recommended that an employer statement rather than a client statement be used as verification.

CAUTION: When requesting check stubs for averaging, be sure to request all check stubs received through the date verification is provided to the OPA. Request check stubs from a specific date to "present."

2. Divide the total income received during the representative period by the number of pay dates in the period to determine an average amount per pay date.
3. Multiply the average pay period amount by the number of pay dates in a month to arrive at the monthly anticipated income.

If income is received:

- a. **Monthly or semi-monthly**, multiply the average pay date amount by the number of pay dates in a month to arrive at the average monthly income.

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- b. **Weekly** or **biweekly**, factor the average income to arrive at the prospected monthly income.



NOTE: Do not average income when significant income changes are expected in the prospective period. Instead, use the rate/unit/frequency option.

4. Document in system case notes the method used, and:
- the agreed upon representative period of time, and
 - the information used to calculate the average pay period amount (gross pay received pay date #1 + gross pay received pay date #2, etc. divided by the number of pay dates used).

NOTE: If certain paychecks were excluded in the averaging process, system case notes must clearly explain why.

► **PRORATING
OVER PERIOD
INTENDED TO
COVER**

Prorating over the period intended to cover is applied to contractual, self-employment or contract for deed income expected to cover a period longer than one month. Prorating over the period intended to cover involves dividing the income by the number of months intended to cover (self-employment) or dividing the payment by the number of months until the next payment is received (non self-employment income). Divide a payment received as follows:

- bi-monthly (every second month) by two.
- quarterly (every three months) by three.
- semi-annually (twice a year) by six.
- annually (once a year) by 12 (this is also referred to as "annualizing").

Contractual income is always divided by the period of the contract (for example, the total of a nine-month contract is divided by nine).

NOTE: If significant income changes are expected in any payments received during the review period, the amount to be prorated may change, but the changed payment amount must be prorated over the period intended to cover. For changes in self-employment income, see MA 503-1.

Document system case notes stating the method used, and:

1. The type of income (e.g., contractual, self-employment, etc.);

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2. The income amount used,
3. How the amount was determined (history of prior payments, tax return, business records, statement from payment source, etc.); and
4. The period (number of months) over which the income is prorated.

**► RATE/UNIT/
FREQUENCY
METHOD**

Anticipating based on rate/unit/frequency is used when none of the other methods are allowed or appropriate, such as when:

1. a full month's income is not expected because the individual will not be working or getting paid for at least one pay period (e.g., new employment, unpaid extended sick leave or unpaid vacation), or the individual expects unusually high or low work hours (not normal fluctuation) during a specific pay period;
2. income is from a terminated source (e.g., lay-off or job termination);
3. income history is not reliable;
4. a significant income change is expected in the future (e.g., a promotion, part-time to full-time or vice versa, additional job duties, a raise in pay, a transfer, etc.).

NOTE:

When an expected income change is reported but more detailed information is needed, schedule a review, complete a desk audit, or set a system alert for the time the change is expected. When determining the due date for the alert, allow time for processing and any adverse action notice.

To anticipate income based on rate/unit/frequency:

1. determine how often the person is paid (frequency);
2. determine rate of pay (rate)
3. determine the unit for rate of pay (normally people are paid by the hour, with "hour" being the unit, but some people are paid for each finished product, by the day, by the week, or by the month);

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4. determine the number of units per frequency (for example, number of hours worked in a two-week pay period).

NOTE: When an individual is paid semi-monthly, it may be most accurate to determine the number of units per month, rather than the number of units in each of the two differing pay periods for the month.

5. multiply the rate times the number of units in the frequency. This results in the anticipated amount of pay per pay period.
6. multiply the anticipated amount of pay per pay period by the number of pay dates expected in the month to determine the total amount of income anticipated for the month.

Document in system case notes stating the method used, including the information used to calculate the anticipated pay date amount(s) (rate, number of units per pay period, and frequency of pay dates).

NOTE: The rate/unit/frequency method may use an average of the number of hours per pay period from previous pay periods when this method is employed to anticipate a change in rate of pay.

**FACTORING
INCOME**

FMA requires factoring of income received weekly or biweekly (every two weeks). If there is a reliable history of income and it is expected to continue, average and then factor.

NOTE: Child support income and legally-obligated child support payments, deductions can only be factored if truly received/paid on a weekly or biweekly basis.

If weekly or biweekly pay checks are provided for the month of application, the checks must be averaged and factored even if the applicant did not receive a 3rd or 5th check in the month of application.

1. **Weekly** income: the weekly income amount (actual or average) will be multiplied by **4.3** to determine a monthly amount; or
2. **Biweekly** income: the biweekly income amount will be multiplied by **2.15** to determine a monthly amount.

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EXAMPLE 1: Ginny works 40 hours per week at \$6.50 per hour and is paid **weekly**. Ginny's monthly income is determined using $40 \text{ hrs} \times \$6.50 = \260×4.3 ; \$1,118 is her monthly factored income.

EXAMPLE 2: Grace works full time and earns \$7.00 per hour. She is paid **biweekly** (every other Wednesday). She receives \$560 gross income in each paycheck. Grace's monthly income is determined using $\$560 \times 2.15$; \$1,204 is her monthly factored income.

FACTORING NOT USED

Weekly or biweekly income is not factored when the recipient will not work or be paid for the normal scheduled hours in any pay period (i.e., verification is provided that a participant will not be paid for hours normally worked such as unpaid sick leave or unpaid vacation, etc). In this situation, the anticipating budgeting method of counting actual days should be used to determine the best estimate.

NOTE: **System case notes** must clearly document why weekly or biweekly income was not factored and details of how income was anticipated.

INCOME NOT COUNTED

There are instances when income is not counted prospectively.

EXAMPLE: A household has no earned income. They timely report on a signed change report form on July 2 that on July 5 a household member will start a job and the first paycheck will be received on July 20. The job will end on August 5, and the last paycheck will be received on August 20.

In this example, July's earned income will never be counted. The household reported the income correctly. July's income could not be reasonably prospected, and therefore was not considered. August benefits are determined based on prospecting August's income as a result of the information provided in the change report.

► FLUCTUATION IN PAY SCHEDULE

Occasionally, a scheduled pay date is moved forward or delayed due to a holiday, an employer's personal schedule, because the pay date falls on a weekend, or some other unusual event. When this happens, the pay received is treated as if it were (or will be) received on the normally scheduled pay date for both actual and anticipated income.

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CASE NOTES

System case notes must clearly document the:

1. Household circumstances;
2. Type of income (e.g., wages, contractual, self-employment, etc.);
3. Budgeting method chosen; and
4. Process used to determine the dollar amount.
 - a. What the agreed upon representative period of time was;
 - b. What information was used to calculate the average pay amount (gross pay received pay date #1 + gross pay received pay date #2, etc. divided by the number of pay dates used); and

NOTE: If certain paychecks were excluded in the averaging process, system case notes must clearly document justifications.

 - c. How the amount was determined (e.g., wage stubs, an employer statement, tax return, business logs, etc.).

► ADDITIONAL EXAMPLES:

Actual

Dolores applies for Medicaid on September 25. She works at the hospital and is paid on the 1st and 16th of each month. She provides copies of her 9/1 and 9/16 pay stubs. These actual pay amounts are used to determine her September eligibility.

Averaging Semi-Monthly Income

Joe has been working for the same employer for two years. His hours fluctuate from week to week. According to Joe, he always works at least 20 hours and never more than 35 hours per week. Joe's pay dates are the 1st and the 15th of each month. He is paid \$9 per hour. Joe is able to provide pay stubs for the last two months (February and March). He states that he expects the next three months (April, May, and June) will be very similar to the past two months in terms of the number of hours he will work.

Average the four pay stubs provided to arrive at an amount per pay period. Joe has agreed the paychecks are a best estimate for the prospective period.

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Feb. 1st pay stub	49 hours	\$ 441
Feb. 15th pay stub	42 hours	\$ 378
Mar. 1st pay stub	47 hours	\$ 423
Mar. 15th pay stub	<u>55 hours</u>	<u>\$ 495</u>
	193 hours	\$1737

$\$1737 \div 4$ equals $\$434.25$ -- the average amount per pay period.

Multiply the average amount per pay period by the number of pay dates in a month to arrive at the anticipated monthly income: $\$434.25 \times 2 = \868.50

Rate/Unit/Frequency #1

If Joe, in the example above, reported that he expected an increase in hourly wage, the best estimate would be to multiply the average hours by the new rate of pay.

$$\begin{array}{rcl}
 & 193 \text{ hrs. per month (average per previous example)} & \\
 \div & \underline{2 \text{ pay periods per mo.}} & \\
 = & 96.5 \text{ hours per pay period -- units per frequency} & \\
 \times & \underline{\$9.75 \text{ per hour -- rate per unit}} & \\
 = & \$940.88 \text{ per pay period} &
 \end{array}$$

Rate/Unit/Frequency #2

Gena, an on-going recipient, reports on May 15 that she will begin working on May 20. She expects to work 21 hours per week and will be paid \$10 per hour. She will be paid weekly on Thursdays. The "unit" of pay is an hour. The "rate" is \$10. The frequency is weekly.

$$\begin{array}{rcl}
 & 20 \text{ hours per week -- units per frequency} & \\
 \times & \underline{\$10 \text{ per hour -- rate per unit}} & \\
 = & \$200 \text{ per pay period} &
 \end{array}$$

As Gena is paid weekly, the weekly amount must be factored.

$$\begin{array}{rcl}
 & \$200 \text{ (amount per pay period)} & \\
 \times & \underline{4.3 \text{ (factor to be used when paid weekly)}} & \\
 = & \$860 &
 \end{array}$$

Prorate over period intended to cover---Self-Employment

Helen has small business. Her books indicate that she does not receive income every month, but she states the income from this business is intended to support her year round. All of Helen's income

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from this business (minus allowable expenses) for a year period is added together and divided by 12 months to arrive at the countable monthly income.

Jan.	\$ 300.00	July	\$ 500.00
Feb.	\$ 0.00	Aug.	\$ 0.00
Mar.	\$ 350.00	Sept.	\$ 750.00
Apr.	\$ 550.00	Oct.	\$ 450.00
May	\$ 875.00	Nov.	\$ 950.00
June	\$ 550.00	Dec.	<u>\$1100.00</u>
Total:			\$6375.00

$$\$6375 \div \text{by } 12 = \$531.25/\text{month}$$

Prorate over period intended to cover----other

Jake receives a quarterly lease payment. He does not expect any changes from previous payments. The average of the last four quarterly payments is \$600. \$600 is divided by 3 (a quarterly payment is intended to cover three months until the next quarterly payment), and income of \$200 per month is anticipated for Jake for each month. Jake is reminded to report changes in the amounts of future payments upon receipt.

Averaging and factoring

In some situations a combination of methods is appropriate to arrive at the best estimate.

Sam has been working for the same employer for six months. He has fluctuating income and is paid every Friday. The eligibility case manager and Sam have agreed to use the actual income amounts which were received for the six weeks prior to the interview to determine his average weekly income.

Week 1:	\$ 100
Week 2:	\$ 150
Week 3:	\$ 150
Week 4:	\$ 200
Week 5:	\$ 50
Week 6:	<u>\$ 200</u>
Total:	\$ 850

Average weekly income: $\$850 \div 6 = \$141.67/\text{wk.}$

Factor the average weekly income $\$141.67 \times 4.3 = \$609.18/\text{mo.}$

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NOTE:

The \$50.00 received the 5th week must be evaluated to determine if the trend is expected to continue. The check could be disregarded as an unusually low check if it is not expected to happen again in the prospective period. A system case note must clearly document the justification for either disregarding or including the check.

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